"Sharing real experiences from decades of profitable trading. Focusing on the important factors that lead to trading success."

Factor Update, October 1, 2017

Market Review

New candidate Factor Moves™ (trading set-up) are developing in:
- EuroSwiss (interest rate)

Candidate Factor Moves™ are currently ongoing in:
- *Australian Dollar (AUD/USD)

This issue also comments on global stock markets, CACI, *CAD/JPY, *GBP/JPY, *PGAL, U.S. 30-Yr Bonds, Australian Bonds, Feeder Cattle, EUR/USD, U.S. Dollar Index, Crude Oil, cryptocurrencies, Gold, softs (Sugar and Cocoa) and grain markets. *Signifies a position in the Factor $100,000 Tracking Account

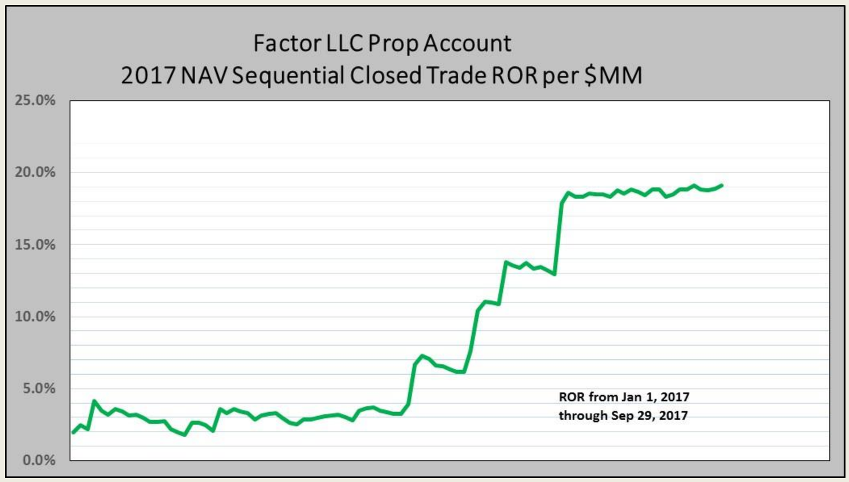
Developing signals	Existing positions
• EuroSwiss – alert • Cocoa – alert • CACI – entry order and protective stop • Australian 3-Yr Bonds – alert • Sugar – alert • Mpls Wheat -- alert	• GBP/JPY – protective stop and target • PGAL – protective stop • CAD/JPY – protective stop and target • AUD/USD – protective stop
The Factor Tracking Account is currently leveraged at 1.1 X. The margin-to-equity use for futures and forex is 4.9%.	

Contents

Trading Commentary 2
EuroSwiss (interest rate) – it is a waiting game 3
AUD/USD – underlying rectangle is being retested 4
GBP/JPY – 10-month ascending triangle completed but advance is stalling 5
EUR/USD – small H&S top is completed with near-record commercial shorts 6
U.S. Dollar Index – the conditions exit for a sizable price advance 7
U.S. T-Bonds – massive H&S pattern is being formed 8
Crude Oil – nearing upper end of multi-year trading range 9
Australian 3-Yr Bonds – H&S top developing 11
Global stock markets – trend remain up, some bullish patterns have appeared 12
PGAL (Portugal ETF) – dominant trend is up; CAPE among lowest in world 14
Softs (Sugar & Cocoa) – bottoming patterns are consistent with COT data 14
Cryptocurrencies – the parabolic advance remains the most logical labelling 15
CACI Int'l – massive continuation inverted H&S has been completed 16
Gold – multi-year bottoming process continues 16
Grain markets – a bottom of generational magnitude in the making 17
Feeder Cattle – a case study in Factor's trading principles and rules 17
CAD/JPY – breakout of massive H&S bottom is stalling 18

Trading Commentary

I have written frequently about the challenging trading conditions in 2017 relative to classical charting principles and Factor's trade management protocol. The challenges continue. This has been an extremely frustrating year. Some traders might feel the urge to change up their trading tactics during tough times. Not me! I become even more committed to my core trading principles and rules in a difficult trading environment. Only by sticking to solid time-tested best practices will my trading performance excel when market behavior returns to some resemblance of normalcy. It is important to remember that trading futures and forex is not an annuity.



Years ago I learned to ignore unrealized or open profits – they do not belong to me, so why should I spend time dwelling on money that is not mine. My observation has been that novice and aspiring traders who obsess over unrealized trading gains do not make it. The reason is that they become emotionally involved with their equity level rather than the markets they are trading. I want my focus to be my trading rules, not on my open equity. I have no control over what a trade will do. The only thing I can control is my order flow.

While my accountant files an annual tax report with the U.S. IRS reflecting the YoY change in open trading equity, my ongoing measurement is based on sequential closed trade NAV. Obsessing over open equity is unhealthy. Consider the following scenario (put yourself into this situation).

> *A trader has an open profit in a long-side contract of Silver of $4,000. A surprise and sudden decline occurs, and the trader is stopped out of the trade on a 40-cent decline, erasing $2,000 of the open trade profit. Question – did the trader just:*
>
> - *Lose $2,000?*
>   *or*
> - *Make $2,000?*

Most novice and aspiring traders would feel they had lost $2,000 when in fact the trade closed at a $2,000 profit.

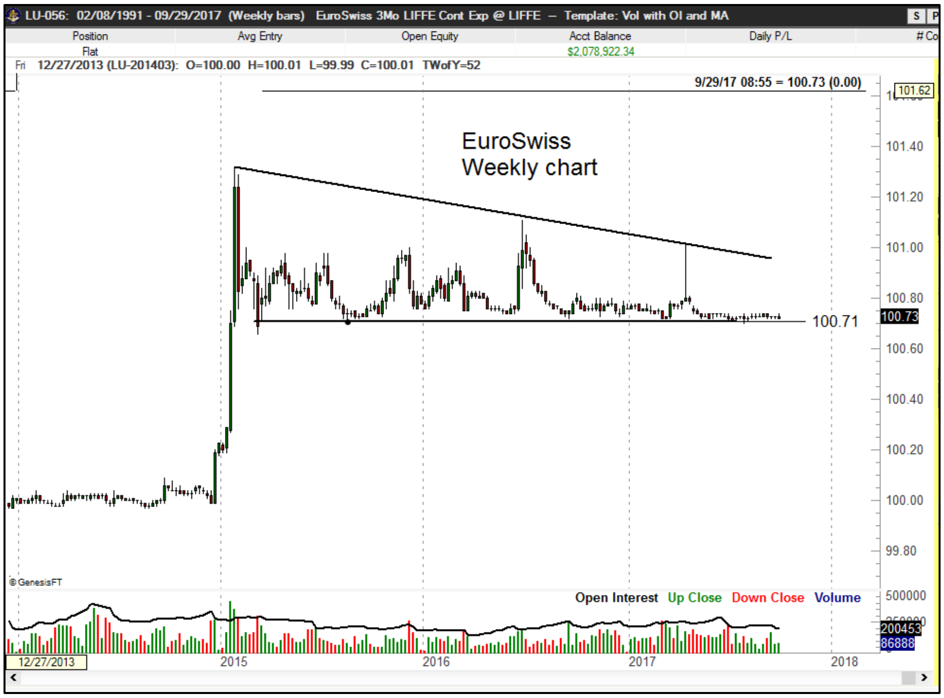
This shows the sequential closed trade NAV for the Factor Tracking Account in 2017. The worst DD on the basis of sequential closed trades has been -2.3% even though two DDs greater than -6% have occurred in 2017 taking into account the change in open equity. Even this week a $2,200 open trade profit per contract in Feeder Cattle was erased in a single day – yet the closed trade loss was only 13 basis points.

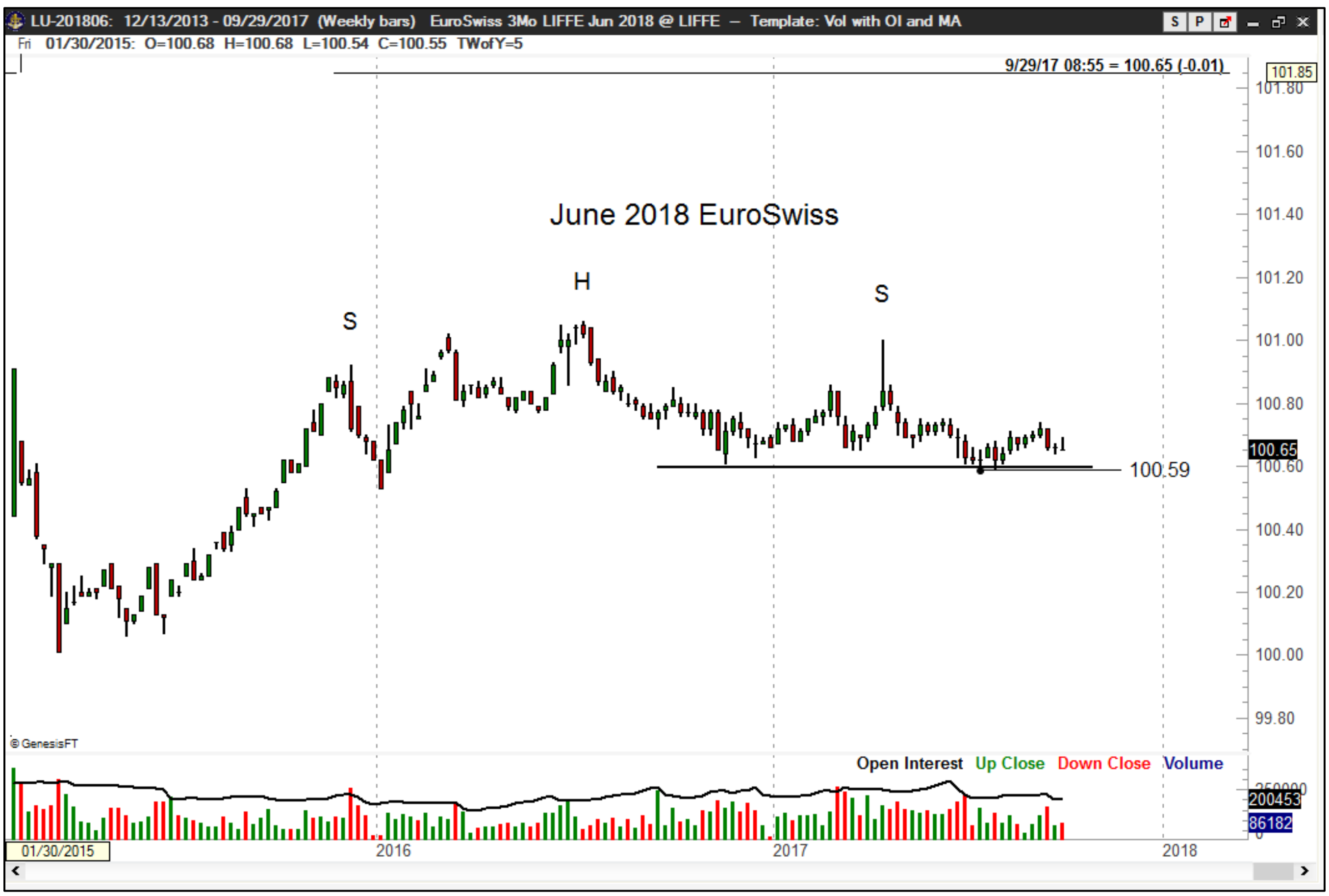
I strongly recommend discretionary swing and position traders to ignore open trade equity and track only sequential closed trade NAV.

Candidate Factor Moves™ Setting Up

EuroSwiss (interest rate) – it is a waiting game

The weekly continuation and Jun 2018 contract graphs are shown. A daily peg at 100.68 by the Swiss National Bank should signal a change in this Central Bank's NIRP. I will be inclined to view a break below 100.57 by the Jun 2018 contract as a selling opportunity.





Candidate Factor Moves™ in Progress

AUD/USD – underlying rectangle is being retested

The weekly and daily graphs are shown. The dominant chart construction in the Aussie is the completed 16-month rectangle with a target of .8400. The decline this past week retested the upper boundary of this rectangle. This was the second major test of the upper boundary of the rectangle – the first test was in mid-Aug. Factor is long – I bought the cross on Friday at .7819 with a risk to .7764. I have a very low expectation for this trade given my thoughts on the U.S. Dollar Index (see page 7). Accordingly I down-sized my purchase.

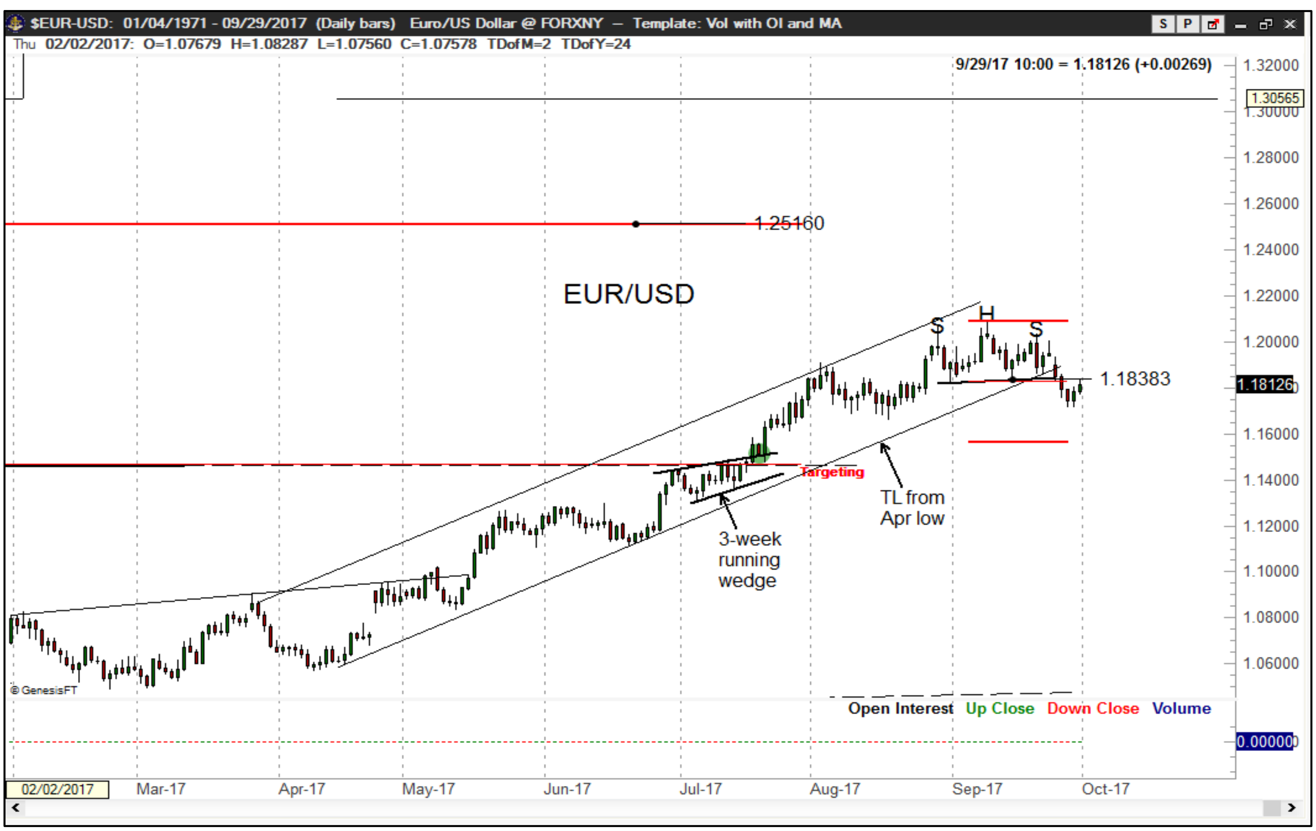
<u>Other Markets</u>

GBP/JPY – 10-month ascending triangle completed but advance is stalling

The weekly and daily charts are displayed. The advance on Sep 15 completed a 9-month ascending triangle. Factor holds a small long position. I am inclined to give this trade wiggle room.

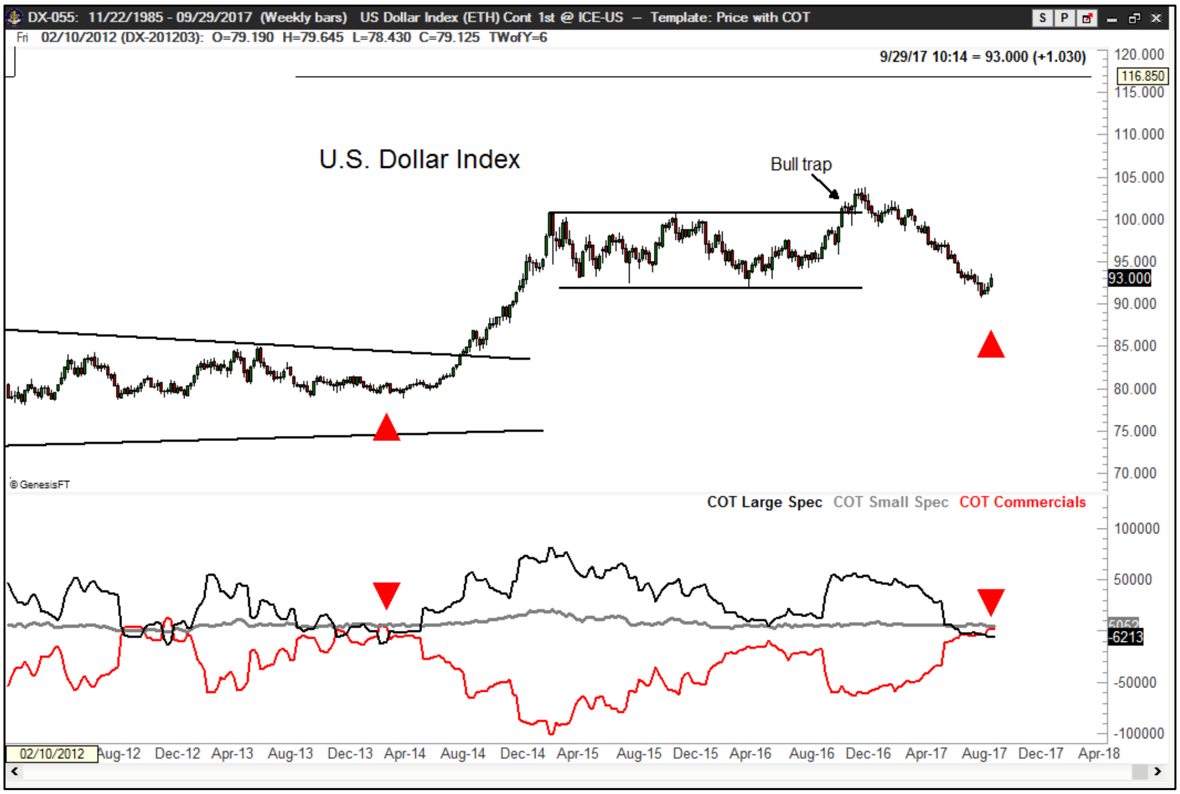
EUR/USD – small H&S top is completed with near-record commercial shorts

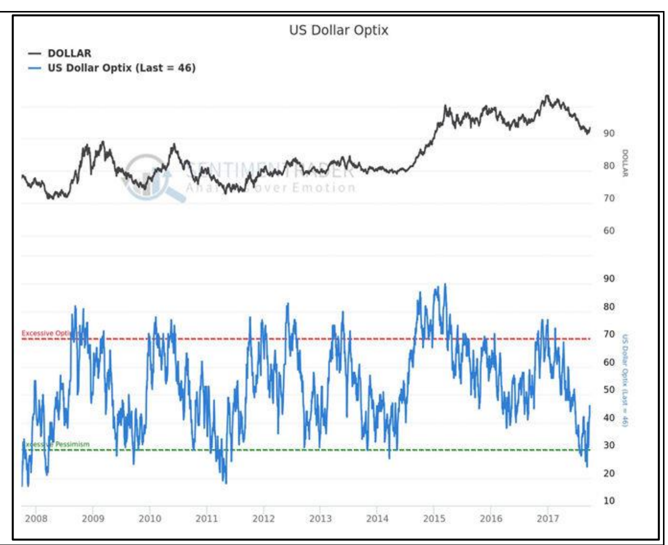
The weekly futures and daily spot graphs are shown. The dominant chart construction is the completed 30-month rectangle on the weekly chart. Note that commercials now hold a near-record short position. This is a potential negative factor – but a similar COT profile was resolved by a sizable advance in 2007 (not shown). The minimum target of this rectangle is 1.2500 with a likelihood of 1.35. A 5-month trading channel was broken to the down side on Monday and a small 4-week H&S top was completed on Tuesday – I was stopped out of a long position in the process. Considering three factors (COT profile, penetrated channel, and concise H&S top) I was very tempted to sell short the retest of the small H&S top on Friday. I did not do so given the consideration of the larger underlying rectangle. I may have missed a swing trade opportunity.



U.S. Dollar Index – the conditions exit for a sizable price advance

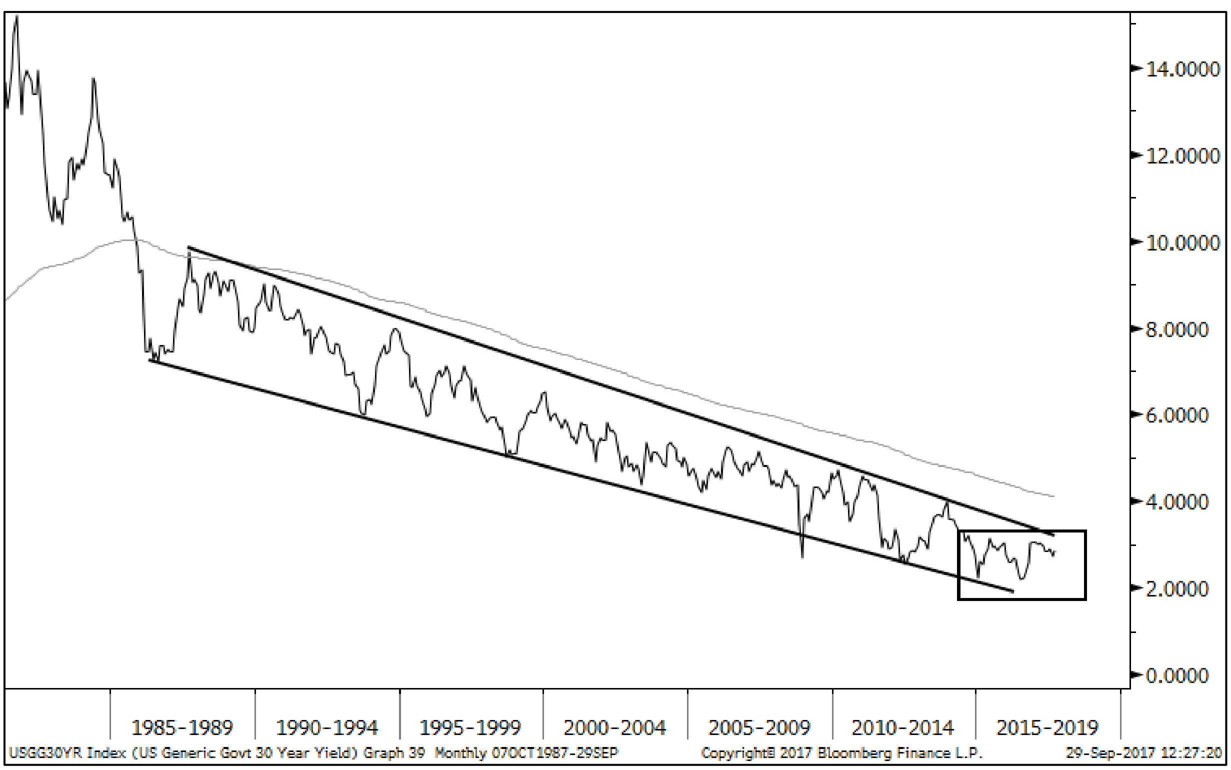
The weekly and daily graphs are shown as well as a graph showing the sentiment of the market. I believe the U.S. Dollar is setting up for a sizable bull run. The commercial interests have established a net long position in DX futures. Mar 2014 was the last time commercials were long – DX then had a massive up move, advancing 25% in the following 12 months. The red triangles ▲ show the similarity in the current COT profile to that of early 2014. Also note that the DX sentiment has reached “excessive-pessimism” levels (similar to the 2014 bottom). The daily chart has not developed a recognizable bottom pattern upon which I can base a long position. Factor is flat.



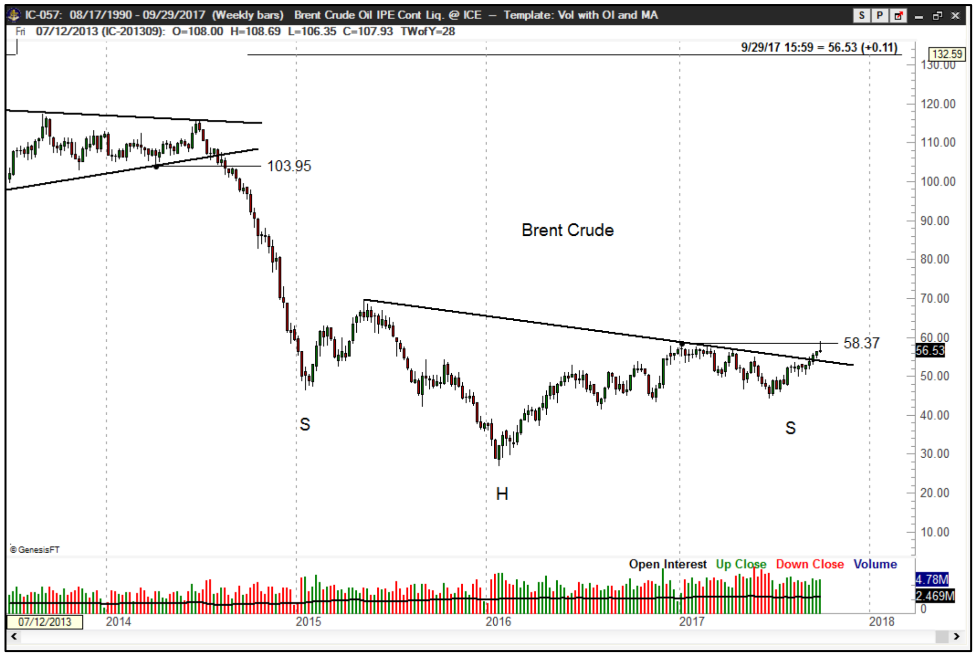


U.S. T-Bonds – massive H&S pattern is being formed

The weekly continuation chart of T-Bonds displays a possible massive H&S top. This pattern is shown as a possible H&S bottom on the yield graph (see box). Factor is flat.

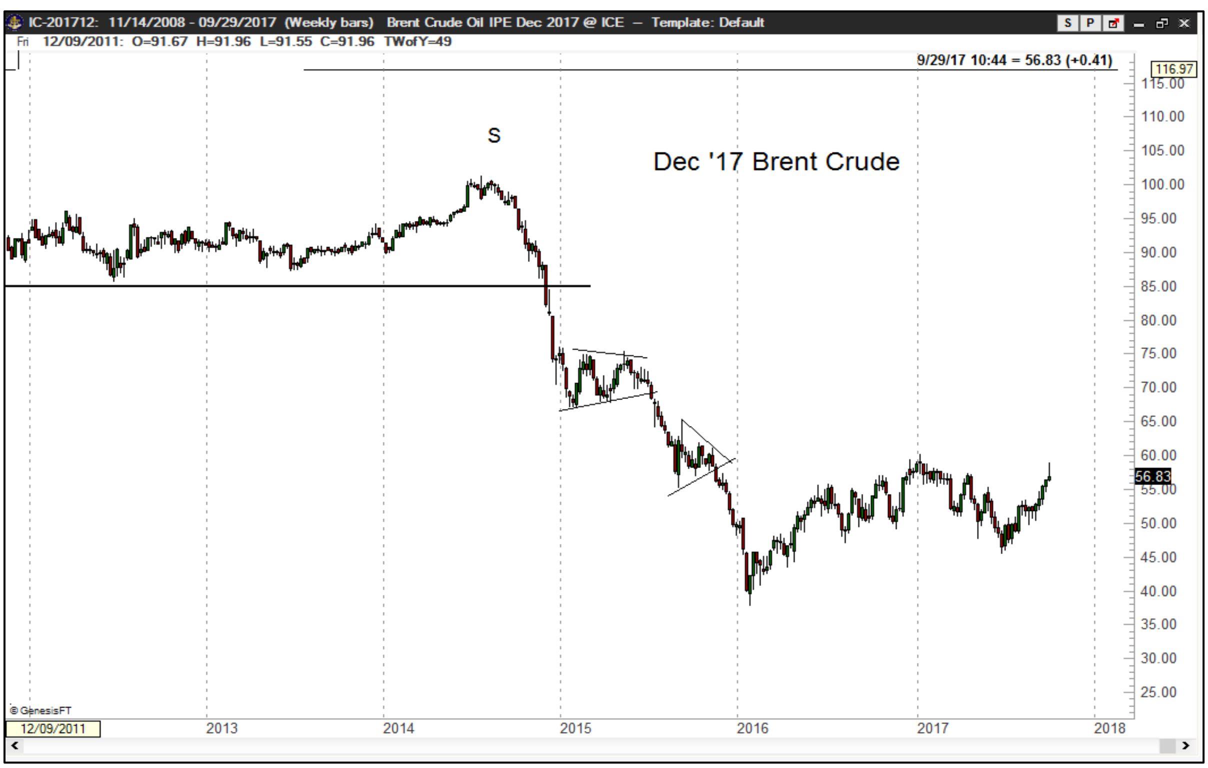


Crude Oil – nearing upper end of multi-year trading range

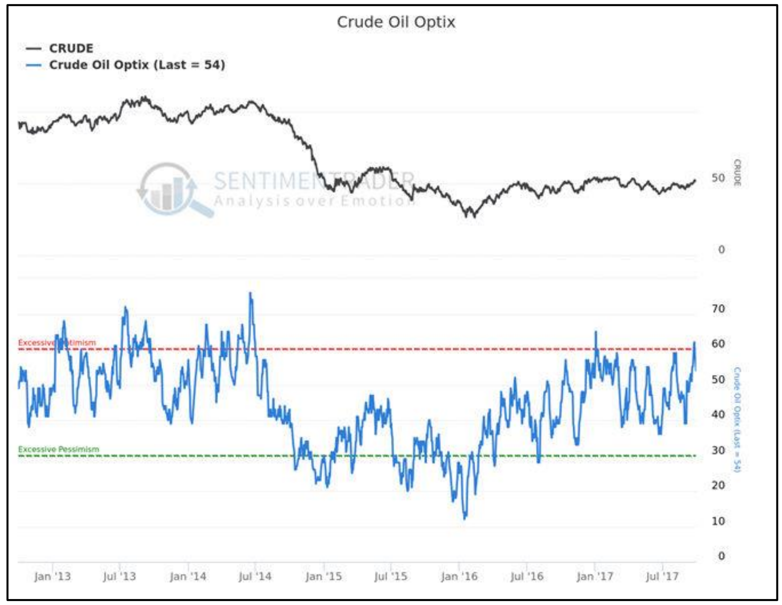


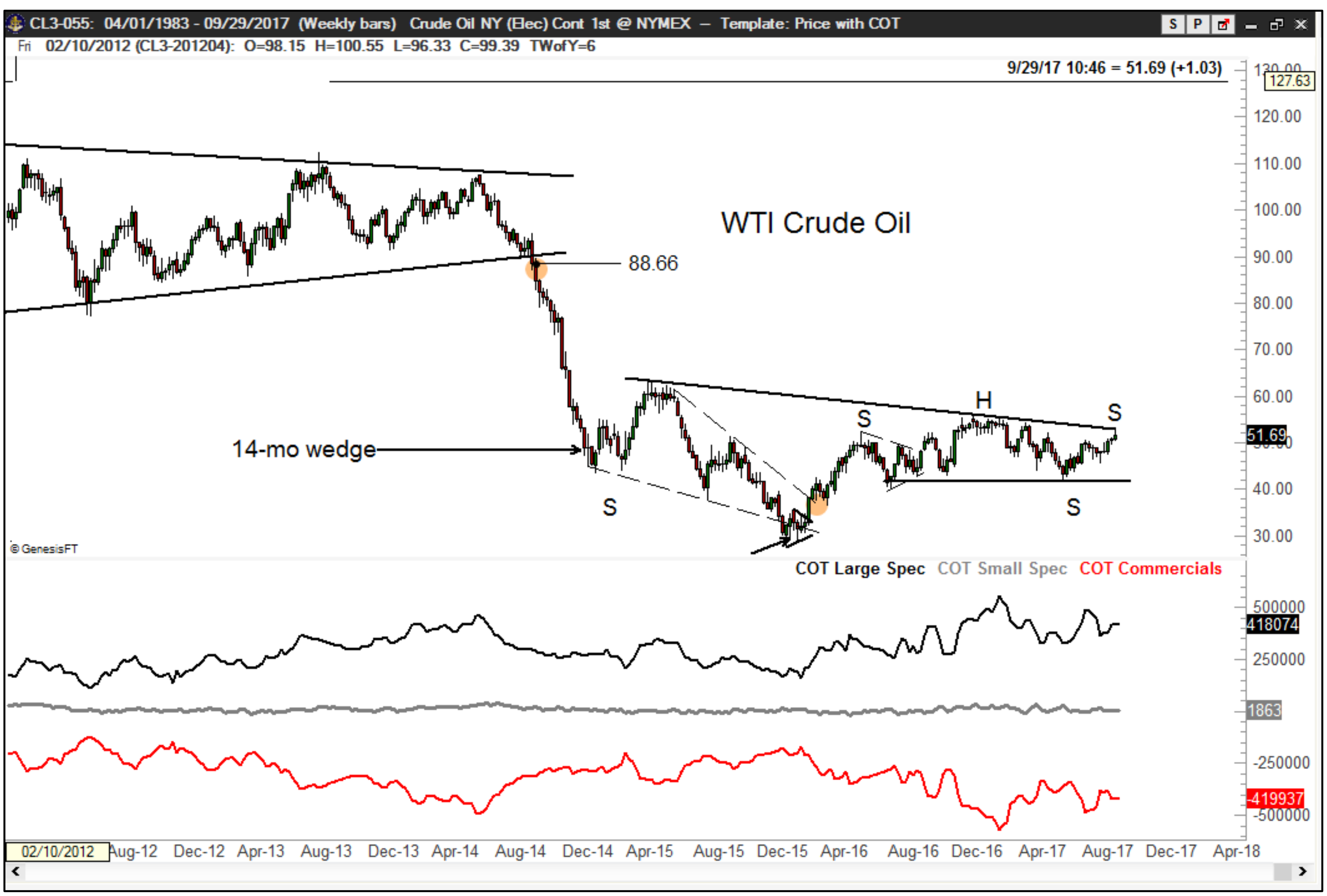
The Brent Crude weekly continuation graph displays a possible 33-month H&S bottom with a severely down-slanted neckline. Based on classical charting principles a decisive close above 59.50 would be quite bullish. However, there are two major problems with the H&S interpretation. First, the volume is heaviest in the right shoulder and lightest in the left shoulder. This is contrary to the classical standards. Yet, the increased volume in 2016 and 2017 could be a result of the growth in this market. The second, and more significant, problem is that of identifying the Jan 2015 low and subsequent four month rally as the left shoulder. I think this price is better defined as a rally in a bear market than as part of a singular 33-month bottom construction.

The Dec. Brent Crude Chart does not display a recognizable bottoming pattern.



WTI Crude is a bit more complicated. The chart construction itself is quite complex. The same arguable H&S bottom displayed on the weekly Brent Crude chart appears on the weekly WTI graph. The market is drifting in an extended right shoulder. As a general rule, belabored right shoulders weaken the power of a H&S pattern. The right shoulder of the possible H&S bottom is a possible 17-month H&S top pattern whereby we are in a right shoulder rally. My bias has been that this H&S top pattern dating back to June 2016 will be resolved on the downside. In support of the bear interpretation are market sentiment and COT data. The bullish sentiment is reaching the extreme levels seen in January 2017 (which is the head of the possible H&S top). The COT data show commercials as heavily net short (459 million barrels), but this is shy of the record short position of 546 million barrels at the Jan 2017 top.



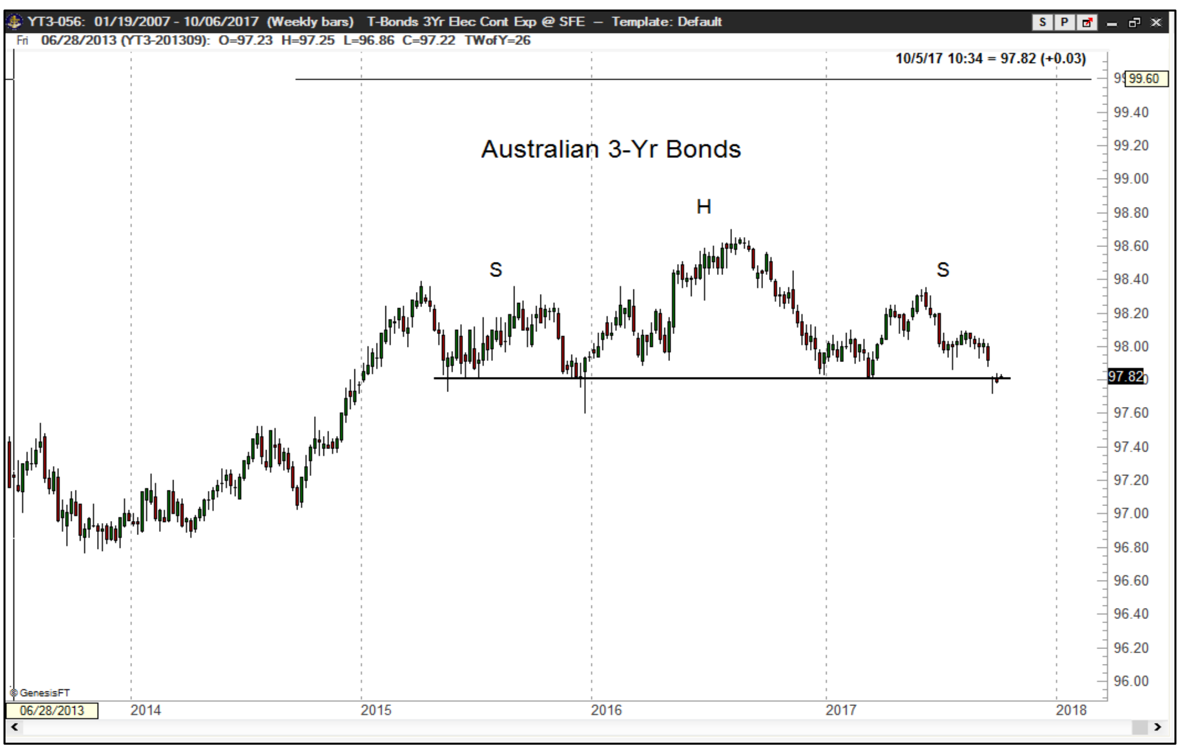


The daily chart of the Dec 2017 contract shows nothing of importance one way or the other.

I have a sense that the Brent and WTI will rally from current levels – and that such a rally should increase both bullish sentiment and commercial short positioning. A rally above the Jan highs in Brent and WTI would likely bring forth widespread chat on social media and the financial press (CNBC and Bloomberg) of a new bull trend in Crude Oil. I would be very doubtful of this conventional wisdom if it occurs. My focus is on the 17-month H&S top on the WTI chart. Factor is flat.

<u>Australian 3-Yr Bonds – H&S top developing</u>

The weekly chart displays a developing 33-month H&S top pattern. I have an interest in shorting this market if the nearby contract closes below 97.74 and then kicks back to the neckline at 97.81 with a risk back to 98.01 in the Dec contract (chart not shown).

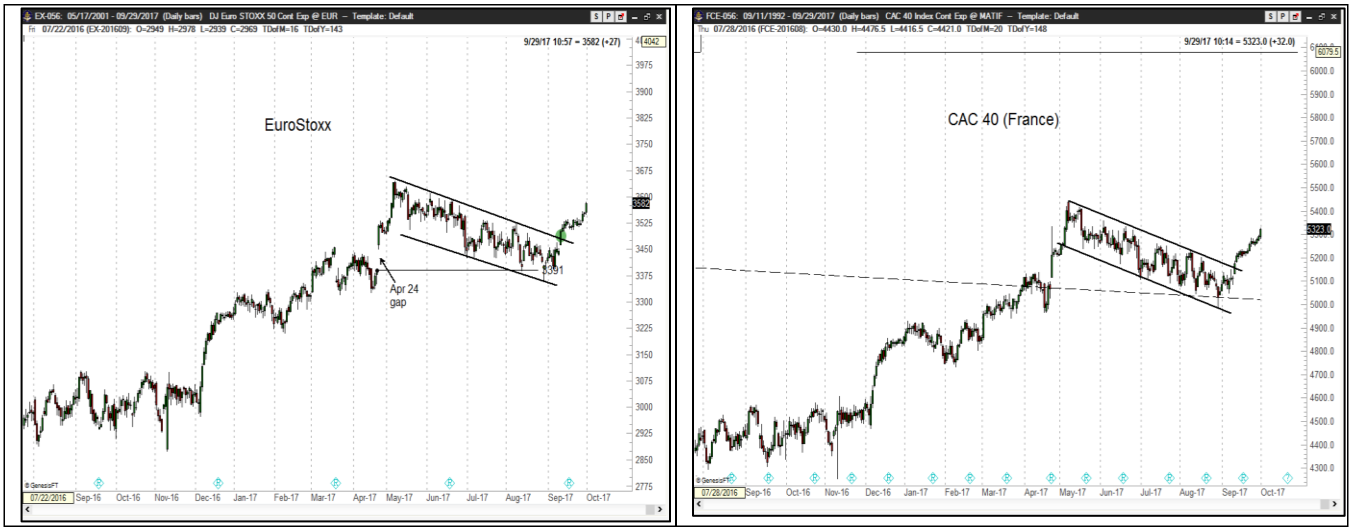


Global stock markets – trend remain up, some bullish patterns have appeared

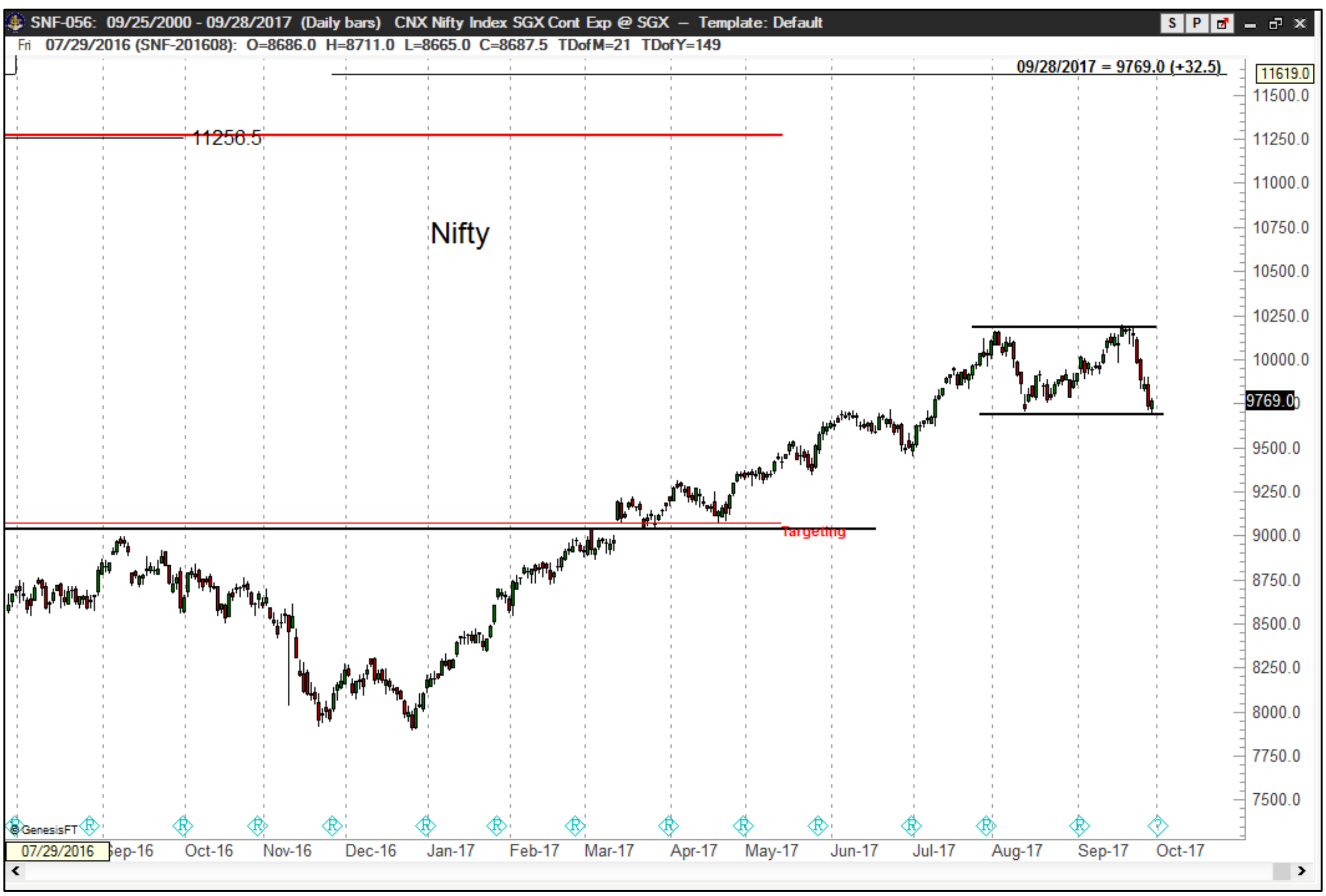
The major trend remains up in U.S. equity markets. The daily NASDAQ chart continues to display a possible rising wedge pattern. This is typically a bearish pattern. It can be argued that the spike low on Sep 25 that penetrated the lower boundary of the wedge was simply a bear trap. Under this scenario the wedge could blow out of the upper boundary in what is known as a running wedge. A running wedge would have a target of 6395. This is a mere 6% higher than Friday's close.

The surge this past week on the daily Russell 2000 chart decisively penetrated the upper boundary of a 9-month megaphone (or inverted right-angled triangle) pattern. The target in the Russell is 1560.

The daily graphs of the CAC (France) and EuroStoxx have completed continuation channels which suggest gains of at least 10%.



If the Nifty (India) can hold current levels there is a possibility of a continuation rectangle. I will monitor this market for a buying opportunity if the chart unfolds as described. Factor is flat in all global stock indexes.



PGAL (Portugal ETF) – dominant trend is up; CAPE among lowest in world

The monthly Portugal stock index (PSI20) and weekly PGAL graphs are shown. Factor is long PGAL with a target of 16.48. For fundamental traders among you, the CAPE ratio in Portugal of 12.3 (as of 6/30) is the lowest in Western Europe and only beaten in the EU by Poland at 12.1 and the Czech Republic at 8.8.

Softs (Sugar & Cocoa) – bottoming patterns are consistent with COT data

Commercials hold a near-record net long position in both Sugar and Cocoa. I could not find another time in the past 15 years when commercials have simultaneously held similar positions. I believe the potential exists for a bull market in the softs. The daily continuation Sugar graph displays a 13-week ascending triangle. The daily chart of the Mar contract displays a possible 13-week symmetrical triangle end-run pattern. The daily Cocoa graph displays a possible 4-month rectangle bottom. I am closely monitoring both markets for a buying opportunity. Factor is currently flat in the softs. See additional charts, next page.

Cryptocurrencies – the parabolic advance remains the most logical labelling

CACI Int'l – massive continuation inverted H&S has been completed

The daily graph is shown. The dominant chart construction in this stock is the completed 9-month continuation inverted H&S pattern. I missed the initial breakout and worked an order this past week to buy a retest of 135.11. I will continue to work this order with a protective stop under 131. Factor is flat.

Gold – multi-year bottoming process continues

The monthly and daily Gold graphs are shown. The Gold long-term chart (RealRange version) continues to develop a possible massive 4+ year inverted H&S bottom. Under the Principle of Symmetry, the completion of this pattern would not occur until Jun 2018. Thus, I am expecting the market to correct into a Q1 2018 low somewhere above 1200. The daily chart (Dec contract) has sliced back through the support line at the Apr and Jun 2017 highs. As seen on the daily chart, a decline to $1200 would go a long way to destroy bullish sentiment. Factor is flat precious metals.

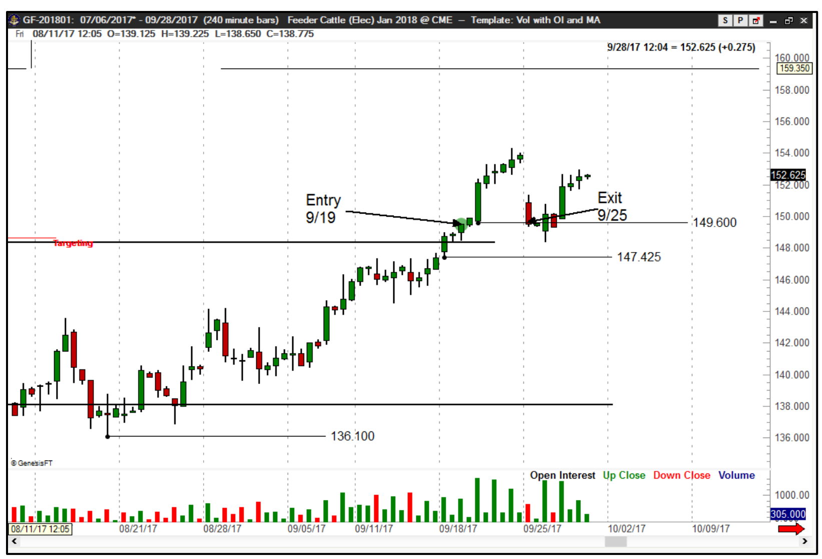
Grain markets – a bottom of generational magnitude in the making

I am not showing a variety of grain charts until something of real interest develops. The grains remain in the process of building long-term bottoms. There is a tendency for Corn and Beans to rally post-harvest (October lows) – charts not shown. The Mpls Wheat market is of interest to me because of the sharp decline in carry-out supplies projected for the 2017/2018 crop year. The daily continuation chart of Mpls Wheat could be forming a symmetrical triangle – the daily chart of the Dec contract (inset) displays a possible H&S bottom. These patterns require prices to turn immediately higher next week or it will be back to the drawing board. Factor is flat in the grain markets.

Feeder Cattle – a case study in Factor's trading principles and rules

I make a distinction between a trading principle and a trading rule or tactic, even though they are highly related. In fact, trading rules and tactics flow directly from trading principles. My overarching trading principles can be explained in this way.

Using leveraged markets (futures and forex) my role is to aggressively protect capital in trades that challenge the entry levels while allowing profitable trades the flexibility to reach their desired profit targets – in other words, do not incur the loss of capital.



According to this principle I advance stops to as close to breakeven as possible just as soon as possible. I am unapologetic about aggressive risk and trade management.

I bought Feeder Cattle on Sep 19 and enjoyed an immediate follow through. A bearish surprise in the USDA Cattle on Feed Report after the Sep 22 close sent Feeder Cattle sharply lower on Monday, thus triggering the stop I had advanced to protect early gains. In hindsight, the initial stop below the Sep 18 would have held. I do not second guess the advancement of the protective stop on this trade. It was a tactic completely consistent with my trading principles.

CAD/JPY – breakout of massive H&S bottom is stalling

The dominant weekly chart construction in this forex cross is the 21-month H&S bottom completed on Sep 11. Factor is long – my stop was narrowly missed on Friday.

Post Mortems

CAD/CHF – I entered this trade on Sep 1. I viewed the correction on Sep 8 as the retest of the breakout and moved my protective stop to below the Sep 8 low. I was stopped out on Sep 29. I despise breakouts that do not immediately follow through. I have no time for markets that retest an entry a month later.

plb
###

Factor Tracking Account, September 29, 2017

Table shows only open trades as of September 29, trades closed in the past week and open trades for which protective stops were changed. Complete listing of Factor Tracking Account for 2017 is updated monthly.

Factor LLC											**9/29/2017**						
Model Tracking Account Trade History and Portfolio																	
Nominal capitalization: $100,000																	
					(See disclaimers and notes below)												
					Entry				**Stop**			**Pattern**		**Exit**			
						Initial	**BP**	**Current**	**Date**							**Capital to**	**Value of**
Market		**Date**	**L/S**	**Price**	**Size**	**stop**	**risk**	**Stop**	**Δ**	**Target**	**Weekly**	**Daily**	**Date**	**Price**	**Net**	**carry trade**	**trade (entry)**
EUR/USD	**EUR/USD**	**7/21/17**	**L**	**1.16513**	**30k**	**1.14240**	**68**	**1.1849**	**9/20**	**1.2497**	**30-mo rect**	**30-mo rect**	**25-Sep**	**1.1849**	**$ 592**	**Closed**	**-**
CAD/JPY	**CAD/JPY**	**9/11/17**	**L**	**89.9200**	**30k**	**88.4800**	**42**	**89.5800**	**9/29**	**102.4200**	**21-mo H&S**	**21-mo H&S**				**$ 1,238**	**$ 24,755**
PGAL	**Port. ETF**	**9/14/17**	**L**	**12.1500**	**800**	**11.5300**	**50**	**11.6600**	**9/21**	**16.4800**	**Bull trend**	**New high reentry**				**$ 9,720**	**$ 9,720**
GBP/JPY	**GBP/JPY**	**9/15/17**	**L**	**148.5420**	**20k**	**145.6800**	**52**	**147.4600**	**9/28**	**160.7300**	**10-mo asc tri**	**10-mo asc tri**				**$ 1,343**	**$ 26,856**
GFF8	**Feeder Cattle**	**9/19/17**	**L**	**149.500**	**1**	**147.500**	**100**	**149.500**	**9/22**	**163.8500**	**4+ mo cont H&S**	**4+ mo cont H&S**	**25-Sep**	**149.475**	**$ (130)**	**Closed**	**-**
AUD/USD	**AUD/USD**	**9/29/17**	**L**	**0.7819**	**60k**	**0.7764**	**34**			**0.8388**	**16-mo rectangle**	**Retest**				**$ 2,346**	**$ 46,914**
												Trades as of			**$ 462**	**$ 14,646**	**$ 108,245**
												Indicates open position value as of				**Levered at**	**1.1**
PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE														**YTD**	**$21,153**		**MtE = 4.9 %**
r = revised	RO = Rollover																

The Factor Service $100,000 Tracking Account represented herein is a proxy representation of the trading executed by Peter Brandt for the Factor LLC's proprietary trading accounts. There are some major differences between the trading activity conducted in the Factor Service $100,000 Tracking Account and trading in the Factor LLC's proprietary accounts. Peter's trade sizing and trade management tactics in the proprietary account is sized and managed per $1MM of proprietary capital. There may be trades Peter believes are not suitable for a $100,000 block of capital, and these trades are not executed in the Factor Service $100,000 Tracking Account. Factor LLC's proprietary account trades multiple contract trades wherein Peter layers into and out of a position at different prices and on different dates. The Factor Services $100,000 Tracking Account most often holds a single futures contract in a trade whereby layering is not possible. Factor LLC's proprietary accounts may also pyramid some trades not pyramided in the Factor Service Tracking Account. Because the Factor Service Tracking Account represents how Peter would trade a $100,000 block of capital in contrast to the actual trading of Factor LLC's proprietary account, the Factor Tracking Account should be considered as hypothetical. Hypothetical trading performance is subject to the following disclaimer required by the Commodity Futures Trading Commission.

CFTC RULE 4.41 - HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER-OR-OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN.